

Newfoundland Telephone Co Ltd,



46th
Annual
Report

APR 20 1962

Directors

L. H. M. AYRE, Chairman of the Board	St. John's, Nfld.
G. OSBERG, President and Managing Director	St. John's, Nfld.
H. COLLINGWOOD	St. John's, Nfld.
A. J. GROLEAU	Montreal, Que.
J. V. LEWORTHY	Montreal, Que.
A. LUNDRIGAN	Corner Brook, Nfld.
A. MARTIN	Corner Brook, Nfld.
F. D. MOORES	Hr. Grace, Nfld.
HON. F. A. O'DEA, Q.C.	St. John's, Nfld.
G. C. WALLACE	Montreal, Que.

Officers

L. H. M. AYRE	<i>Chairman of the Board</i>
G. OSBERG	<i>President and Managing Director</i>
D. E. HOWLEY, C.A.	<i>Secretary-Treasurer</i>

*Registrar,
and Transfer Agent*

Montreal Trust Co.
At the following offices—
Montreal, P.Q.
St. John's, Nfld.
Halifax, N.S.

THE 46TH ANNUAL REPORT OF THE DIRECTORS
TO THE SHAREHOLDERS OF
THE AVALON TELEPHONE COMPANY, LIMITED

Earnings were unsatisfactory again in 1965 as a result of the inadequate rate structure approved in 1952 under which the Company is continuing to operate.

It is disappointing to report that no decision has been received from the Board of Commissioners of Public Utilities on the rate application filed in October, 1964. Hearings were suspended in April of 1965 to permit Engineering Consultants, appointed by the Board, to check the rate base and depreciation rates recommended in the Company's submission. The Consultants' report and testimony given in October hearings confirmed the Company's submission in every important respect.

Despite a revenue gain in excess of 20% and a much smaller increase in expenses, the return on the capital invested in the business amounted to only 3.8%. After deducting interest on debt obligations there remained only \$250,397 representing 10¢ a share, or less than 2% on the Shareholders' equity.

The Notes to the Financial Statements and the Auditors' Certificate indicate that the provision for depreciation is inadequate in relation to that calculated as essential by engineering study. An appropriate rate would approximate 4.7% as submitted in the rate application. The Company is constrained, until this rate is approved, to the 3.3% authorized by the Board of Commissioners of Public Utilities in 1952.

Adequate provision for depreciation would have resulted in a deficit of \$76,811 rather than the amount of net income reflected on the Income Statement.

Financing was progressively more difficult to arrange through 1965. In spite of this every effort was made to continue the programme of improvement and development. Expenditures on new telephone plant totalled 8.3 million dollars. This increase brings the total investment in telephone property up to \$37,370,000 or \$559 per telephone, compared to \$30,093,000 or \$460 per telephone in 1964.

In St. John's excellent progress was made on the new exchange and long distance centre. The associated rebuilding of the outside plant and installation of underground ducts and cable was virtually complete by December 31, 1965.

At year end there were 66,898 telephones in service — a gain of 2,875 for the year. The number of unfilled applications for service was reduced by 16%. Business customers responded well to new service offerings. For example, 38 of the latest type automatic switchboards were installed.

New exchanges were opened at Cape Broyle and Ferryland. The Brigus area was converted to dial. More equipment was installed in offices at Grand Falls, Freshwater, Carbonear, Harbour Grace, Bay Roberts and Long Pond. Additional long distance facilities were built between Corner Brook and Deer Lake and in the Grand Falls and Bay Roberts offices. The network was enlarged and strengthened with 820,000 feet of additional cable in service.

In 1965 an accelerated local service improvement program was introduced. It entailed the analysis of trouble reports and quality checks on both the maintenance and installation of

telephones. To ensure prompt and courteous attention to customer requests for repairs, facilities for answering repair service calls were extended. More effort was devoted to maintaining equipment in the various offices. The effect of the program was that reports of trouble received from customers were reduced by one-third.

A very active program to improve long distance circuit reliability was also instituted. A re-organization of the group responsible involved placing supervisory personnel in every major long distance centre. A team approach, involving all operating and engineering people provided a concentrated effort in correcting long distance problems.

The volume of long distance messages was 18.8% higher in 1965. This gratifying gain could not have been accomplished without the combination of new facilities and improved use of existing facilities. It is the most direct possible reflection of customer satisfaction with new and improved long distance service.

At the beginning of 1965 customers in the major centres waited, on average, three weeks to have a telephone installed. This interval has been reduced to three days. Plans are well-in-hand to extend this improved service to other locations.

The advances made to date in services and facilities as well as the Company's plan to improve and extend them are jeopardized by the inability to continue to arrange long term financing. The general closed sinking fund bonds which matured in January, 1966 could not be refunded and the repayment had to be arranged by extension of an already onerous bank loan.

On June 30th Mr. G. C. Wallace, President and Managing Director since 1962 resigned to accept a senior executive position with The Bell Telephone Company of Canada. We are fortunate to have him continue as a Director of the Company. On July 1st Mr. G. Osberg was appointed President and Managing Director.

Other changes in Directorships during 1965 were the appointment of Mr. F. D. Moores and the resignations of Mr. C. R. Tittlemore and Mr. G. R. Hanley to whom the Company extends a vote of appreciation for the sound judgement and experience they have contributed to our progress.

It is a pleasure to record the cooperation and help of Avalon employees in the expanded activities of 1965.

On behalf of the Board of Directors,
G. OSBERG,
President and Managing Director.

St. John's, March 3, 1966.

THE AVALON TELEPHONE

(Incorporated under the

BALANCE

A S S E T S	December 31 1965	December 31 1964
TELEPHONE PROPERTY	\$37,370,145	\$30,093,012
Land, Buildings, Plant and Equipment valued, as at December 31, 1963 by The Bell Telephone Company of Canada after a complete physical inventory, substantially on the basis of actual cost but where necessary on developed unit costs for each year of placing, with subsequent additions at cost		
 CURRENT ASSETS		
Cash		18,970
Special Deposits		
Funds for retirement of preference shares		144,675
Funds for redemption of long term debt due January 1, 1966....	405,000	
Marketable Securities, at cost (market value \$22,695)	23,500	23,500
Accounts Receivable	1,374,004	1,102,763
Materials and Supplies, at cost	422,757	669,323
Prepayments	102,601	73,862
	2,327,862	2,033,093
 DEFERRED CHARGES		
Unamortized Discount and Expense on Long Term Debt	210,456	225,392
Other	513,738	281,278
	724,194	506,670
 TOTAL ASSETS	\$40,422,201	\$32,632,775

The notes to financial statements are

Signed on behalf of the Board of Directors:

L. H. M. AYRE, Director

G. OSBERG, Director.

COMPANY, LIMITED*laws of Newfoundland)*

SHEET

LIABILITIES

	December 31 1965	December 31 1964
SHAREHOLDERS' EQUITY		
Ordinary Shares (Note 1)	\$12,709,760	\$12,681,610
Premium on Ordinary Shares	140,910	140,910
Retained Earnings	275,739	6,428
	<hr/>	<hr/>
Preference Shares (Note 1)	13,126,409	12,828,948
	<hr/>	125,000
	13,126,409	<hr/>
	<hr/>	12,953,948
	<hr/>	<hr/>
LONG TERM DEBT (Note 2)	9,566,177	11,235,767
	<hr/>	<hr/>
CURRENT LIABILITIES		
Bank Overdraft	365,574	
Bank Loan	8,500,000	2,812,560
Accounts Payable	2,667,844	1,340,992
Due to Parent Company	109,707	83,930
Interest Accrued	156,490	97,210
Taxes Accrued	73,366	30,335
Long Term Debt due within one year	1,588,088	91,588
Income Taxes Payable on Redemption of Preference Shares		44,025
	<hr/>	<hr/>
	13,461,069	4,500,640
	<hr/>	<hr/>
ACCUMULATED DEPRECIATION (Note 3)	2,626,521	2,467,584
	<hr/>	<hr/>
DEFERRED CREDITS		
Income Tax (Note 4)	1,642,025	1,474,836
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TOTAL LIABILITIES	\$40,422,201	\$32,632,775
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an integral part of this statement.

THE AVALON TELEPHONE COMPANY, LIMITED

INCOME STATEMENT

for the year ended December 31, 1965

	<u>1965</u>	<u>1964</u>
OPERATING REVENUES		
Local Service	\$2,980,500	\$2,700,199
Long Distance Service	2,823,690	2,054,407
Miscellaneous	169,409	164,274
Less: Provision for Uncollectibles	60,238	18,822
	<u>5,913,361</u>	<u>4,900,058</u>
OPERATING EXPENSES		
Maintenance	1,652,098	1,423,930
Depreciation (Note 3)	946,157	797,011
Traffic	636,973	563,499
Commercial	361,627	261,482
Other	942,220	935,414
	<u>4,539,075</u>	<u>3,981,336</u>
NET OPERATING REVENUES	<u>1,374,286</u>	<u>918,722</u>
OPERATING TAXES		
Income Taxes (Note 4)	134,888	33,139
Other Taxes	97,637	80,122
	<u>232,525</u>	<u>113,261</u>
OPERATING INCOME	<u>1,141,761</u>	<u>805,461</u>
OTHER INCOME	<u>130,400</u>	<u>42,933</u>
TOTAL INCOME BEFORE INTEREST CHARGES	<u>1,272,161</u>	<u>848,394</u>
INTEREST CHARGES		
Interest on Long Term Debt	596,645	600,666
Other Interest	410,182	171,702
Amortization of Discount and Expense on Long Term Debt	14,937	15,242
	<u>1,021,764</u>	<u>787,610</u>
NET INCOME FOR THE YEAR	<u>\$ 250,397</u>	<u>\$ 60,784</u>

The notes to financial statements are an integral part of this statement.

THE AVALON TELEPHONE COMPANY, LIMITED

STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1965

BALANCE AT BEGINNING OF YEAR		\$ 6,428
Add: Net Income for the Year	\$250,397	
Adjustments, net after tax, of prior years' revenue settlements	32,301	
Miscellaneous Additions	<u>4,028</u>	<u>286,726</u>
		293,154
Deduct: Capital reorganization and refinancing charges		<u>17,415</u>
BALANCE AT END OF YEAR		<u><u>\$275,739</u></u>

The notes to financial statements are an integral part of this statement.

AUDITORS' REPORT

To the Shareholders of
The Avalon Telephone Company, Limited,
St. John's, Newfoundland.

We have examined the balance sheet of The Avalon Telephone Company, Limited as at December 31, 1965 and the related statements of income and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the inadequacy of the amount of accumulated depreciation and the provision for the year as referred to in note 3, the accompanying balance sheet and related statements of income and retained earnings present fairly the financial position of The Avalon Telephone Company, Limited as at December 31, 1965 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, ROSS, BAILEY & SMART,
Chartered Accountants.

Montreal, Que.
February 17, 1966.

THE AVALON TELEPHONE COMPANY, LIMITED

NOTES TO FINANCIAL STATEMENTS

as at December 31, 1965

Note 1

Capital Stock

Ordinary shares — par value \$5 per share

Authorized	4,000,000	shares	
Outstanding: at January 1, 1965	2,536,322	shares	
issued in 1965 on conversion of preference shares at the rate of 5 ordinary for 1 preference share	5,630	shares	
at December 31, 1965	2,541,952	shares	\$12,709,760

Preference shares — par value \$25 per share

Authorized	500,000	shares	
Issued	230,000	shares	
Redeemed or converted to December 31, 1964	225,000	shares	
Outstanding at December 31, 1964	5,000	shares	
Redeemed or converted in 1965	5,000	shares	
Outstanding at December 31, 1965	—		

Note 2

Long Term Debt

First mortgage twenty year sinking fund bonds

Series	Maturity	Issued	Redeemed or held for Redemption	Outstanding
3½%	August 1, 1966	\$1,350,000	\$258,500	\$ 1,091,500
4%	August 1, 1969	900,000	141,000	759,000
5½%	May 1, 1973	500,000	63,500	436,500
5½%	May 15, 1977	1,500,000	120,500	1,379,500
5½%	June 1, 1978	1,000,000	60,000	940,000
6%	June 1, 1979	1,000,000	52,000	948,000
7%	May 1, 1980	2,000,000	80,000	1,920,000
				<u>7,474,500</u>
First mortgage twenty-five year bonds				
5½%	June 1, 1988	3,000,000		3,000,000
General (closed) sinking fund bonds				
4½%	January 1, 1966	500,000	95,000	405,000
Notes payable				
5¾%	March 1, 1966 to 1968			274,765
				<u>11,154,265</u>
Less long term debt due within one year				1,588,088
Long Term Debt				<u>\$ 9,566,177</u>

Note 3

DEPRECIATION

The provision for depreciation for the year 1965 has been calculated at a rate of 3.3%, being the rate approved January 14, 1952, by the Board of Commissioners of Public Utilities of the Province of Newfoundland. The engineers of the company have calculated 4.65% as the required composite depreciation rate based on the service lives of the various classes of plant. Had the calculated rate of 4.65% been applied for the year 1965, the provision for depreciation for the year would have been greater by \$462,000. The accumulated deficiency as at December 31, 1965 is estimated to be \$3,100,000.

Note 4

INCOME TAX

As a result of the company's intention to claim for income tax purposes capital cost allowances in excess of the depreciation recorded in the accounts, income taxes of \$134,888 charged to income in the year and \$32,301 charged to retained earnings are not presently payable and have been transferred to deferred credits — income tax.

THE AVALON TELEPHONE

	1965	1964	1963
No. of Telephones	66,898	64,023	60,364
Business	20,708	19,009	17,647
Residence	46,190	45,014	42,717
Per Cent Dial	92.3	92.6	93.9
Telephones added	2,875	3,659	3,890
No. of Exchanges	48	47	42
Dial	24	23	21
Magneto	9	12	14
Common Battery	15	12	7
Total Plant and Equipment	\$37,370,145	\$30,093,012	\$27,894,344
Per telephone	\$ 559	\$ 470	\$ 462
No. of Employees	731	686	595
Wages and Salaries paid	\$ 2,517,687	\$ 2,148,271	\$ 1,793,678
Total Operating Revenues	\$ 5,913,361	\$ 4,900,058	\$ 4,680,957
Total Operating Expenses and Taxes.....	\$ 4,771,600	\$ 4,094,597	\$ 3,730,370
Net Income	\$ 250,397	\$ 60,784	\$ 398,804
Available for Ordinary Shares	\$ 250,397	Nil	\$ 72,975
Per Average Share (loss)	\$ 0.10	\$ (0.08)	\$ 0.09

COMPANY, LIMITED

1962	1961	1960	1959	1958	1957	1956
58,708	53,505	49,818	45,754	42,423	38,216	34,060
17,164	16,134	14,870	14,671	14,354	12,014	11,674
41,544	37,371	34,948	31,083	28,069	26,202	22,386
96.3	97.5	95.5	91.2	89.0	86.0	85.5
5,203	3,687	4,064	3,331	4,207	4,156	3,527
35	31	32	30	30	30	29
21	20	18	14	11	10	8
14	11	12	14	14	14	15
—	—	1	2	5	6	6
\$24,362,935	\$21,766,871	\$19,711,928	\$17,007,481	\$14,714,810	\$11,811,136	\$ 9,222,570
\$ 415	\$ 407	\$ 396	\$ 372	\$ 347	\$ 309	\$ 271
558	521	545	541	514	495	401
\$ 1,606,163	\$ 1,455,012	\$ 1,365,000	\$ 1,218,790	\$ 1,148,301	\$ 939,526	\$ 733,074
\$ 3,632,665	\$ 3,263,824	\$ 2,919,455	\$ 2,534,462	\$ 2,107,821	\$ 1,676,851	\$ 1,497,103
\$ 2,657,286	\$ 2,247,546	\$ 2,037,229	\$ 1,832,979	\$ 1,518,014	\$ 1,249,169	\$ 1,141,038
\$ 482,873	\$ 570,345	\$ 498,590	\$ 441,284	\$ 392,095	\$ 312,062	\$ 263,102
\$ 157,028	\$ 255,749	\$ 217,706	\$ 183,270	\$ 179,992	\$ 132,043	\$ 110,685
\$ 0.31	\$ 0.61	\$ 0.62	\$ 0.58	\$ 0.68	\$ 0.57	\$ 0.61

